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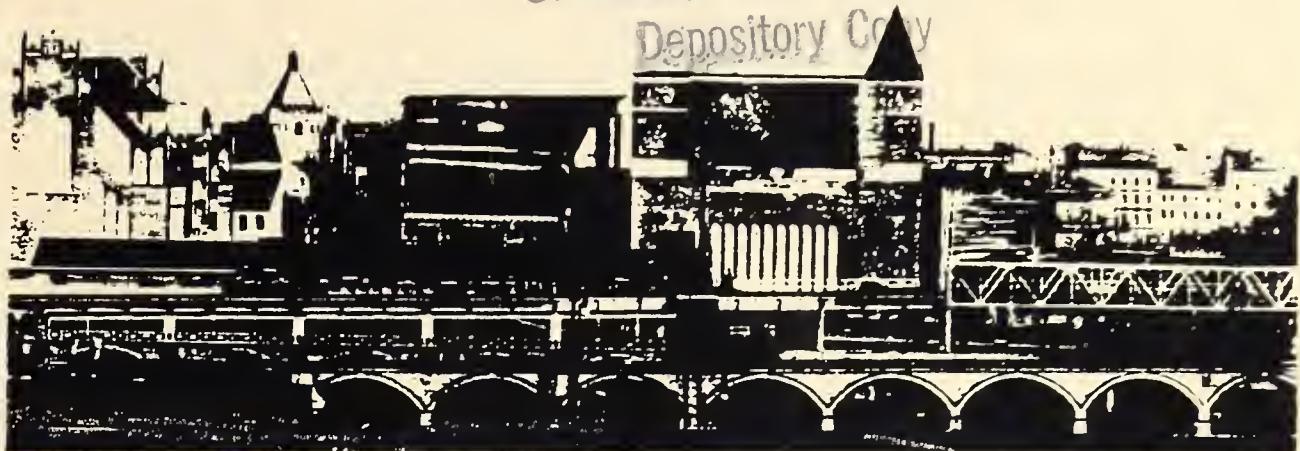
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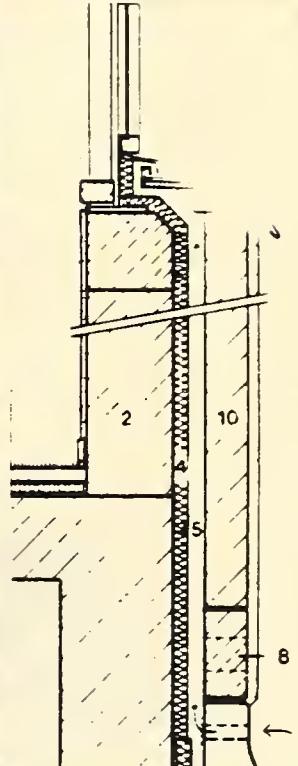
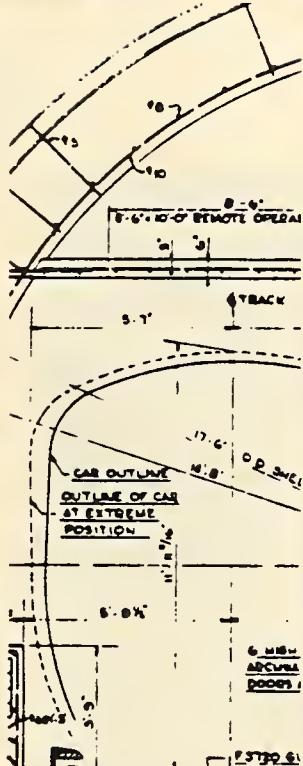
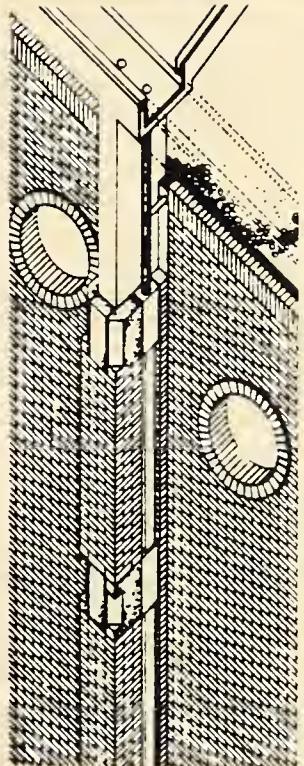
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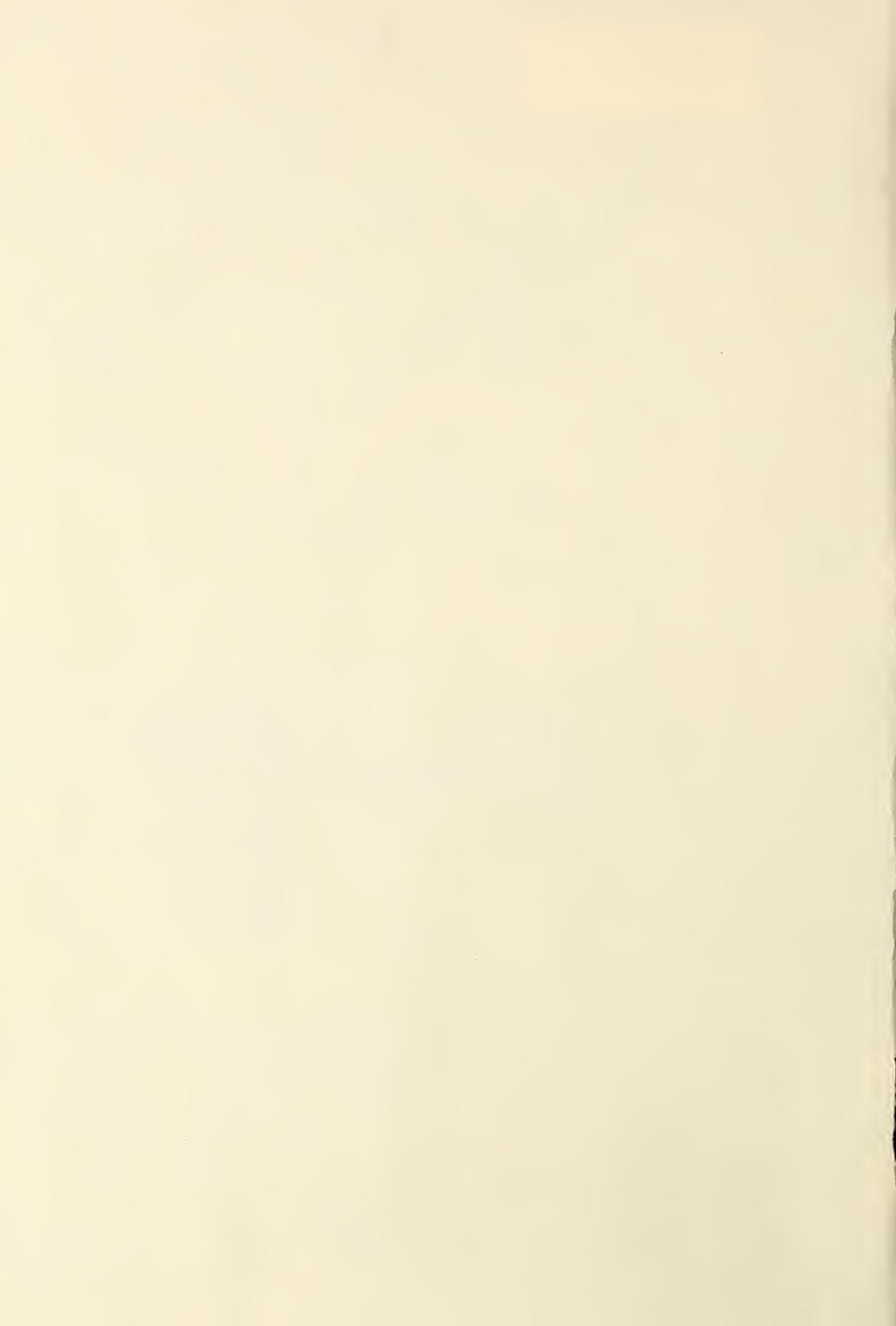
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MASSACHUSETTS DEVELOPMENT BANK



A Proposal to Rebuild and Expand
the Commonwealth's Economic Infrastructure.

Michael S. Dukakis
Governor

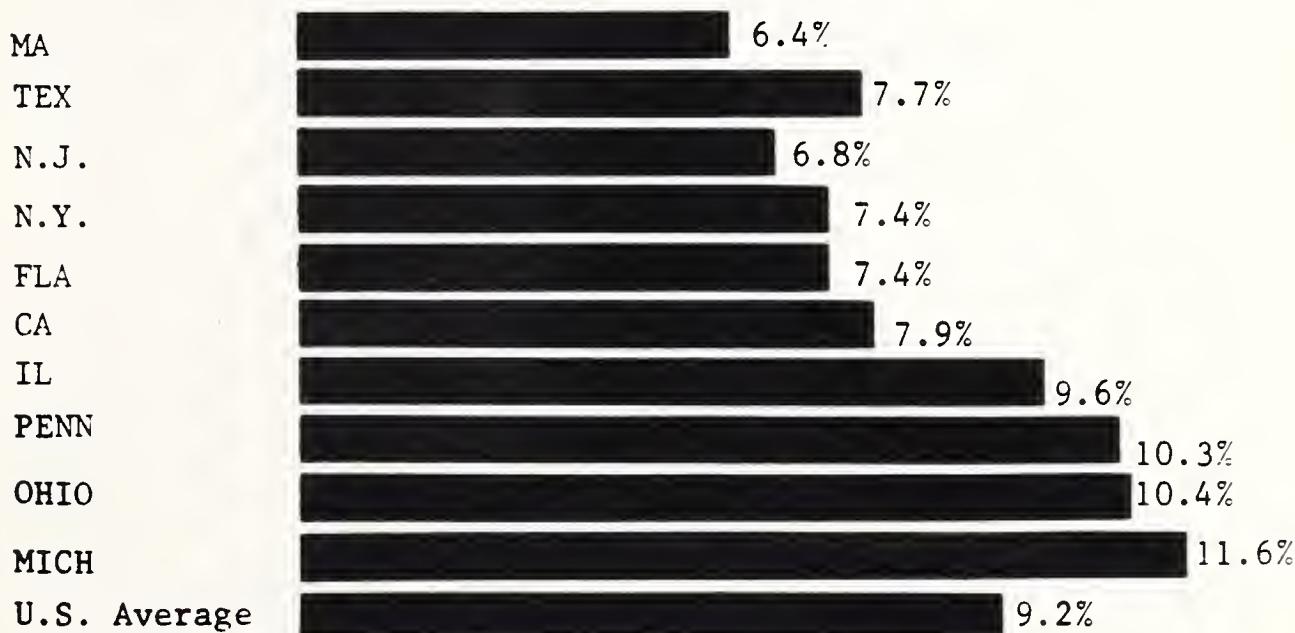


A Proposal to Rebuild and Expand the Commonwealth's Economic Infrastructure.

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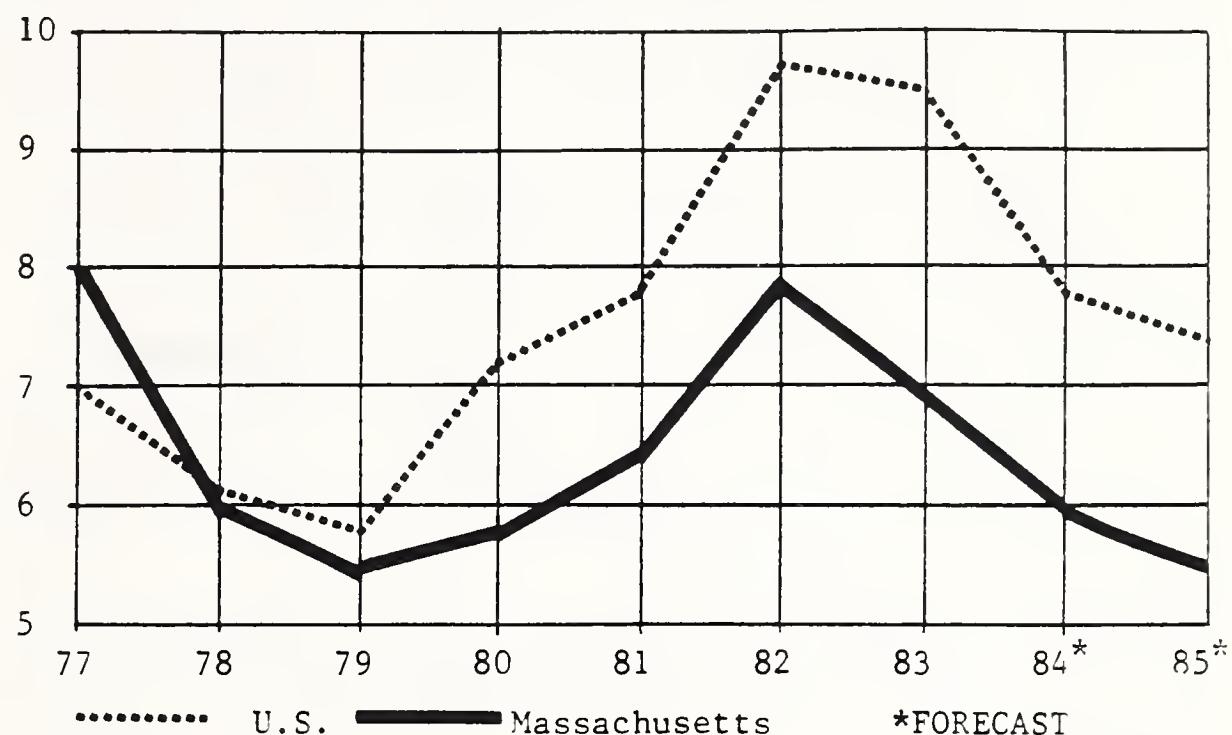
Massachusetts has left behind the image of a declining, over-taxed industrial state in which it is costly to live and do business. The economy of the state is one of the soundest in the nation in terms of diversification and growth.

Unemployment Rates in Massachusetts and Nine Other Large
Industrial States
December, 1983

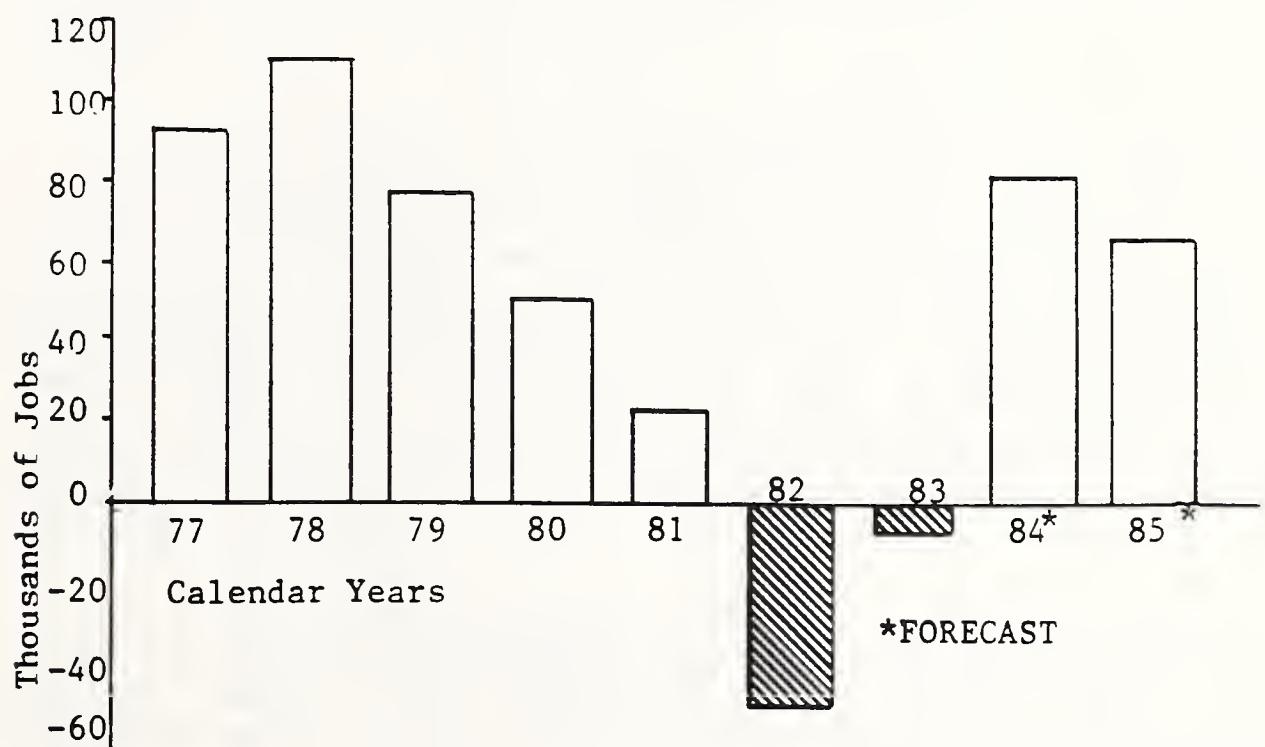


- Unemployment rate in Massachusetts is well below the national average.
- Unemployment rate in Massachusetts the lowest of the nine comparable industrial states.

Unemployment Rates, 1977 to Present
Massachusetts and U.S.

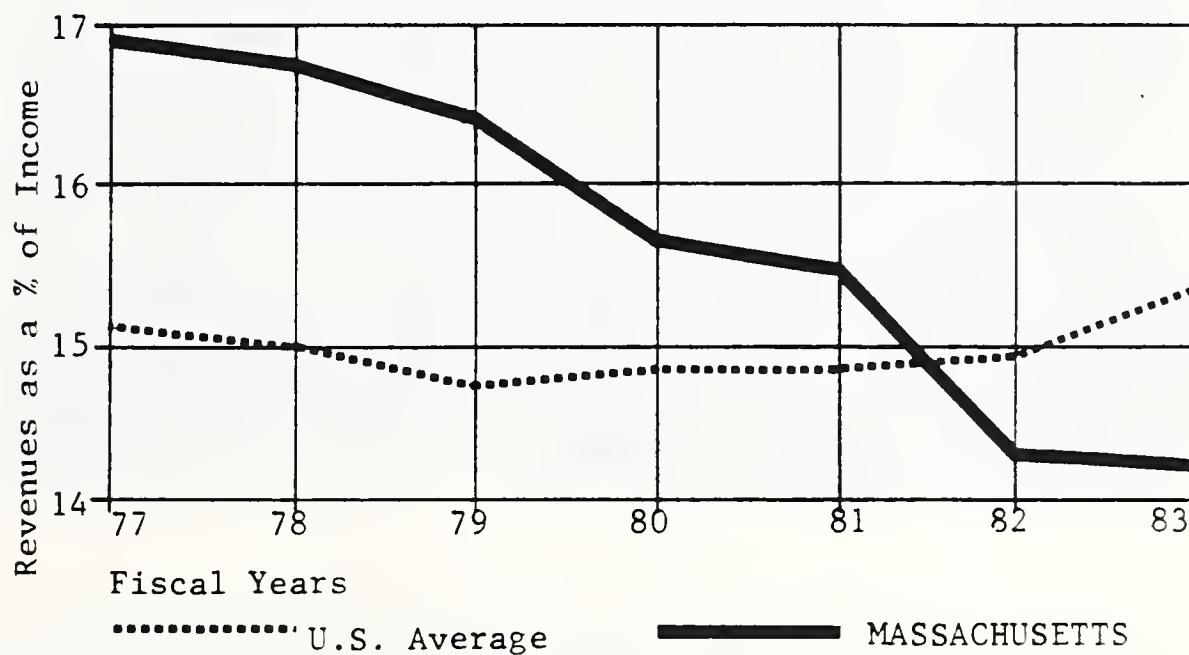


Job Creation in the Commonwealth
Year to Year Change in Employment (1977-1985)



Throughout the recent recession, our unemployment rate was far below the national average and has been for some time the lowest of any industrial state. Contrary to popular assumptions, our total revenue burden as a percent of income is now below the national average and going down. And we have progressed from having the highest property taxes in the nation to a ranking of 11th, and going down.

The Burden of Total State and Local Own-Source Revenue
on Personal Income: Massachusetts and U.S. FY75-FY83



From all indications, Massachusetts is on the move.

Nonetheless, despite these many positive signs, the Commonwealth faces a serious problem -- a problem shared with practically all the other states and even the federal government. The physical infrastructure on which rests not only our economic future but, indeed, the very quality of life in the state, is in disrepair. Massive amounts of additional funds need to be spent on highways, roads, bridges, water supply and waste water treatment facilities, sewerage systems, waste disposal and resource recovery facilities and other similar projects. The vibrant economy and our pleasant environment literally depend on whether these various projects are repaired and expanded.

But, providing the hundreds of millions of dollars which are needed at the earliest possible time brings forth yet another problem. Massachusetts already exceeds a desirable level of general obligation debt -- the traditional way by which we finance these projects. This increases our costs of borrowing -- a cost paid by every taxpayer in the Commonwealth.



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HOLYOKE SINKHOLE, AUGUST 18, 1983 BOSTON HERALD PHOTO



MASSACHUSETTS STATE AND LOCAL DEBT PER CAPITA COMPARED WITH
AVERAGE FOR ALL STATES, 1982

	Total Debt <u>Per Capita</u>	Full-Faith & Credit <u>Debt Per Capita</u>	Revenue Backed <u>Debt Per Capita</u>
MASS.	\$1,769	\$965	\$805
U.S. Avg.	\$2,1119	\$763	\$1,356
MASS Rank	23rd	9th	34th

MASSACHUSETTS COMPARED WITH NEW JERSEY

MASS.	\$1,769	\$965	\$805
N.J.	\$1,861	\$699	\$1,162
MASS Rank	23rd	9th	34th
N.J. Rank	21st	19th	18th

A new approach is required -- one which will provide the funds in a way which will also address the current imbalance in the debt structure of the Commonwealth.

"The State's high debt ranking largely reflects its DEBT STRUCTURE. Massachusetts primarily issues general obligation, non self-supporting debt. Conversely, it ranks among the LOWEST of the states in its use of revenue debt or self supporting general obligation debt. One key question facing the Commonwealth concerns its choice of financing methods. If general obligation bonds are issued to meet annual incremental financing needs, the resulting increase in state general obligation debt outstanding could either jeopardize the Commonwealth's bond rating or limit the possibility of an upgrading.

A comparison of financing options shows that issuing the revenue bonds to finance infrastructure investment may represent a COST EFFECTIVE alternative. The revenue bond option results in lower interest costs because it avoids the potential "supply effects" associated with increased general obligation debt issuance and, more significantly, reduces the likelihood of a credit rating downgrading since debt ratios would not rise as rapidly."

From: A Report to the Massachusetts Finance Advisory Board by the First National Bank of Boston, November, 1983

Such a new approach is the Massachusetts Development Bank -- or MassBank -- which is proposed not only as a new but a more dependable means of financing infrastructure projects for state and local government.

The Need for MassBank

Infrastructure is the life support system for our state's economy and the high quality of life of its citizens. Unless the roads, bridges, water systems, sewerage systems and other public projects are maintained and expanded, private economic development will lose its momentum. Job growth will slacken and personal incomes will suffer. Not only will the quality of life suffer, but, indeed, life itself might be endangered. Massachusetts must not wait for a bridge to collapse and lives to be lost before action is taken.

But, the necessity for public investment in infrastructure development is to be distinguished from public spending. It is, instead, like private investment in plant and equipment which leads to higher productivity and profits in the future. More public investment in the needed repair and improvement of our public facilities will secure the state's economic future and enhance the prospects for prosperity for future generations.

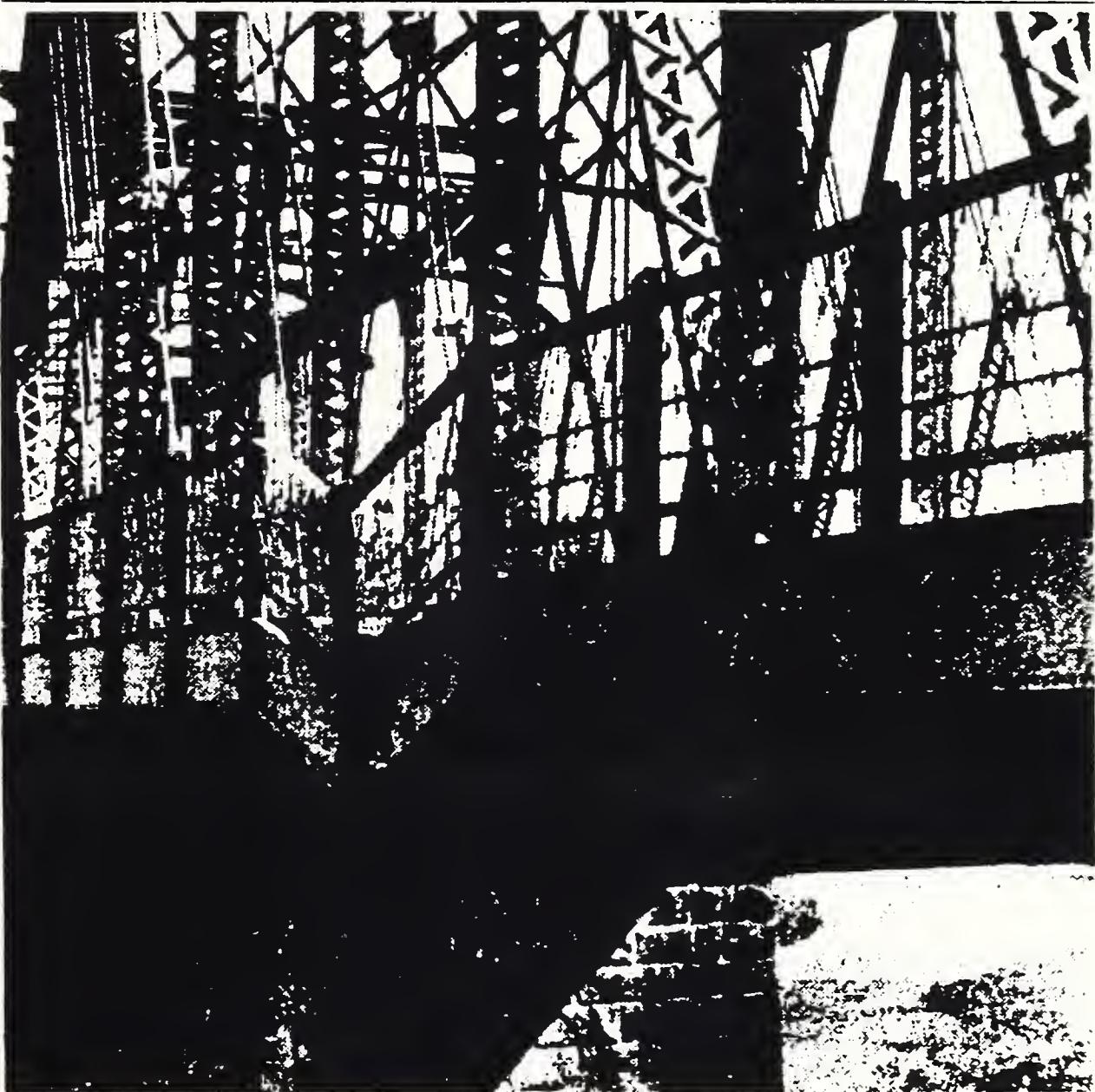
NEW CONSTRUCTION NEAR LECHMERE STATION, CAMBRIDGE, MASSACHUSETTS



Conversely, front page stories of falling bridges and pothole-riddled highways do more to hurt a state's business image than anything else imaginable. A system of sound public facilities is the most effective incentive for economic growth.

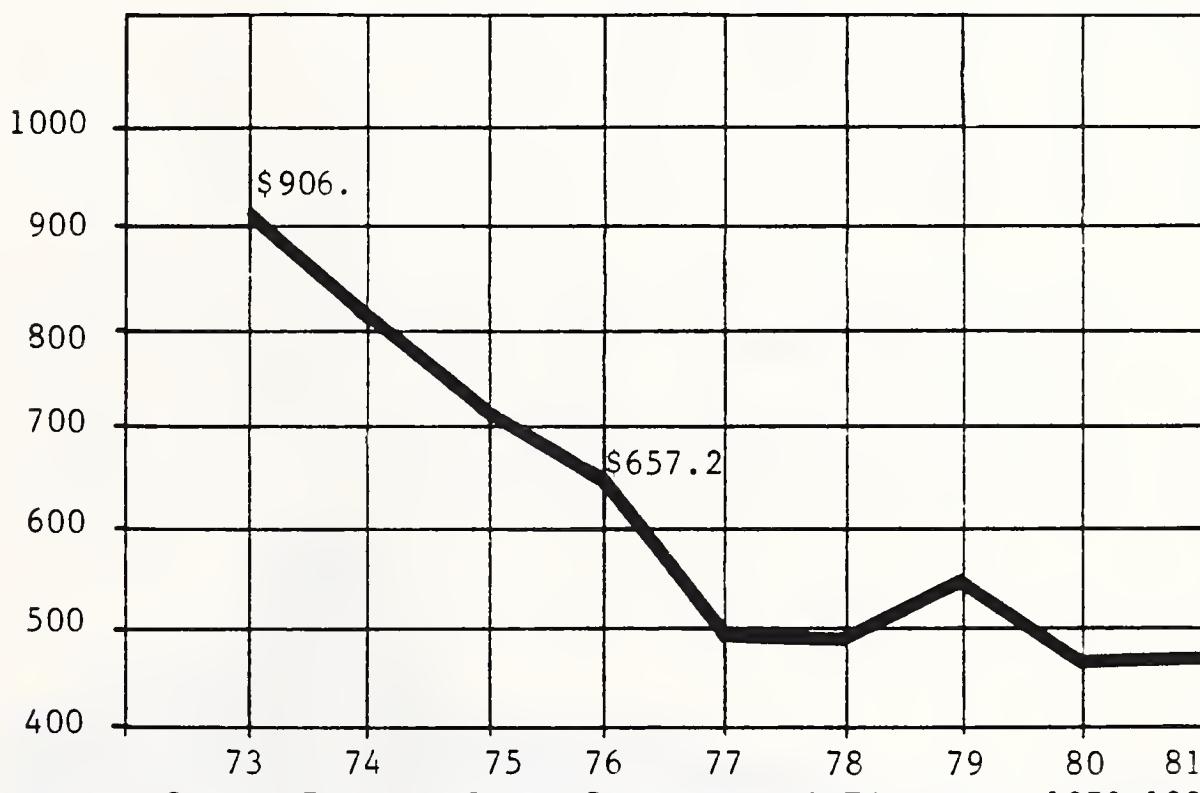
Somebody always pays if infrastructure needs are not attended to. Everyone assumes the cost through increased travel delays, broken axles, environmental deterioration or, less directly but most importantly, foregone economic growth opportunities. And business pays the cost by constructing the infrastructure necessary to its direct operations which the public sector fails to provide.

89 YEAR OLD BRIDGE SECTION COLLAPSES, AUGUST 18, 1983
READVILLE, MA. (BOSTON GLOBE PHOTO)



Underfunding infrastructure needs is penny-wise and pound-foolish. But, that is exactly what we have been doing. Nationally, total investment in infrastructure has slipped from 4.6% of GNP to just over 2% since 1965. In Massachusetts, we invest about one-third of the minimum dollars needed annually to keep our economic life support system healthy and vital. In the last decade, state and local capital expenditures, when measured in constant dollars, have been cut in half.

Massachusetts State and Local Capital Expenditures
(1972 \$, Millions)

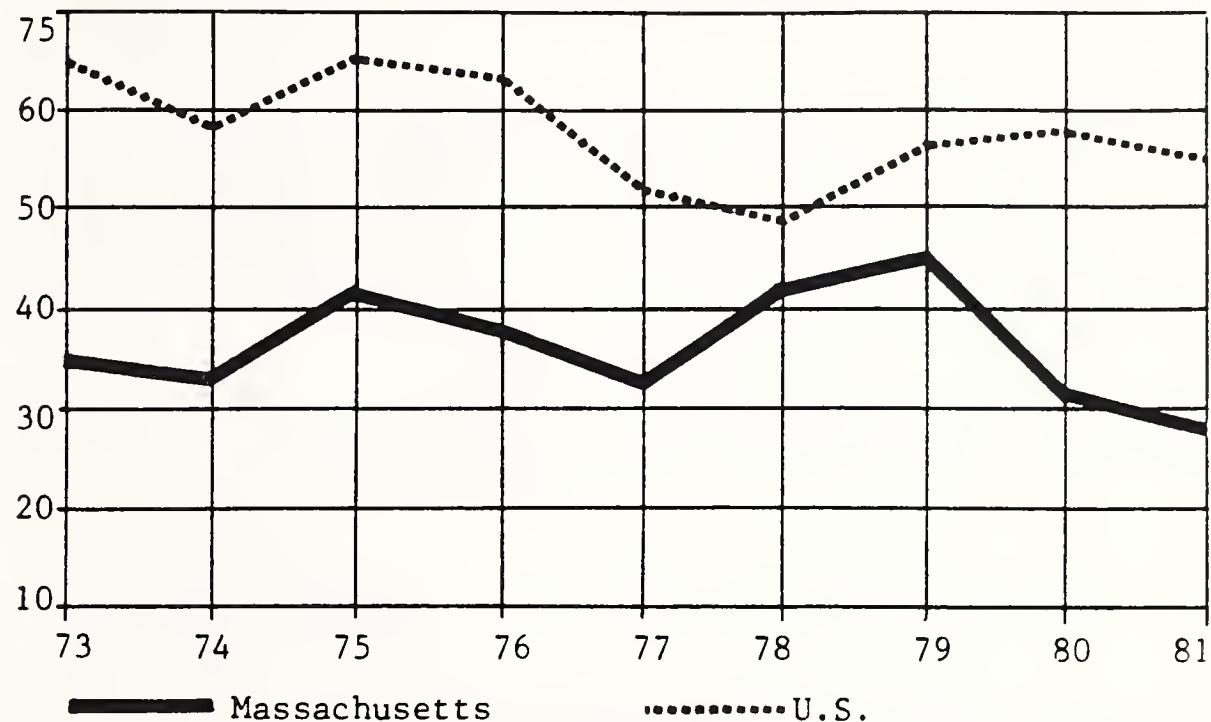


Source: Census Bureau, State Governmental Finances, 1973-1981

This is a national problem. And as important as it is to force the federal government to acknowledge this crisis, Massachusetts must assume a leadership role immediately and initiate its own forward looking program to address this problem, both to provoke a federal response and to protect and sustain our own economic vitality in the next decade.

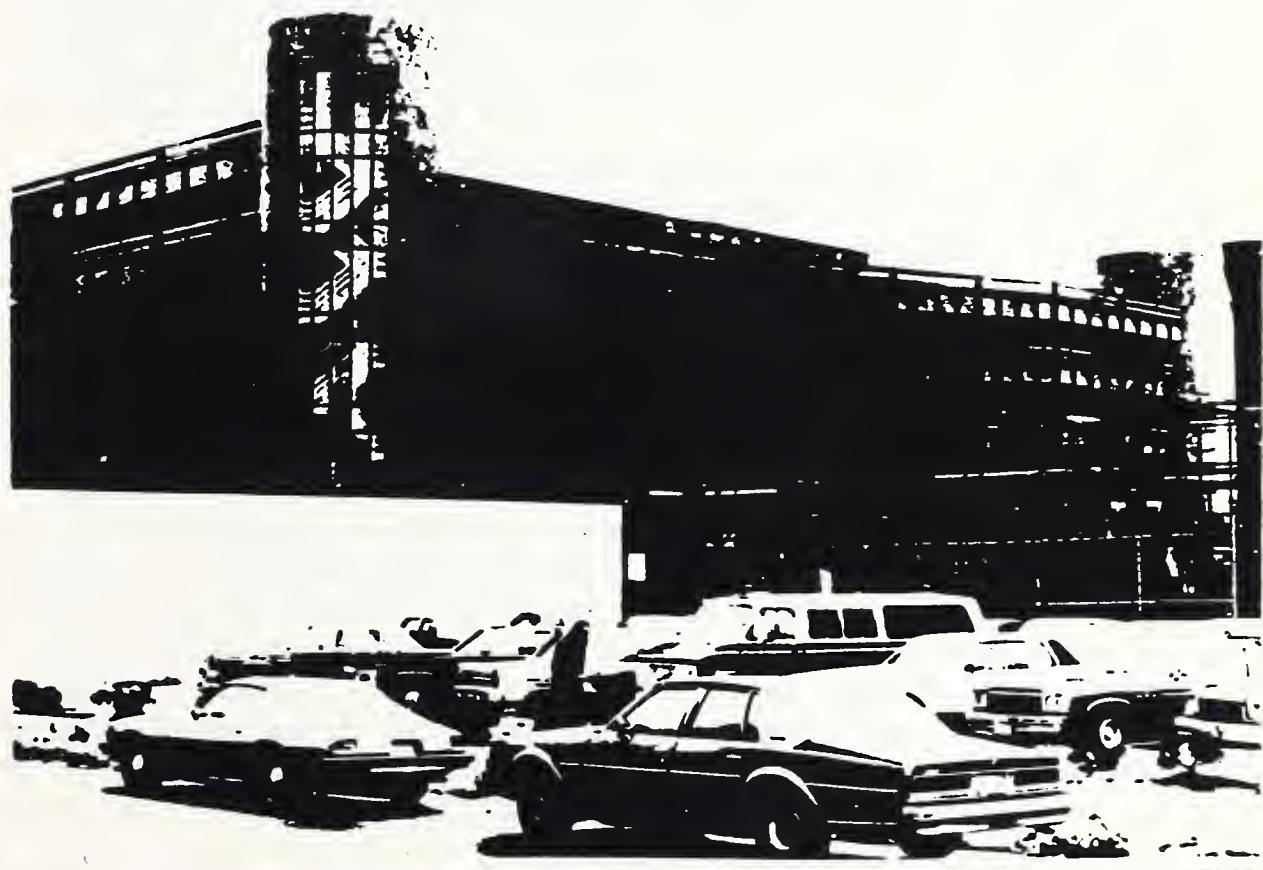
But we have a special problem in Massachusetts. In recent years our investment in highway and sewer projects has been substantially below than of other states.

State and Local
Highway and Sewer Capital Outlay Per Capita, 1972 Dollars



Source: D.S. Bureau of the Census, Governmental Finances,
1973-1981.

NEW MALDEN CENTER PARKING GARAGE, MALDEN, MA.



MassBank: The Massachusetts Response

MassBank will be an independent state agency in, but not under the supervision of the Executive Office of Administration and Finance.

It will have a five member board of directors: the State Treasurer and the Secretary of Administration and Finance will serve as ex officio members, with three additional members appointed by the Governor. The Chairman and Chief Executive Officer will be designated by the Governor from the appointed members.

State Infrastructure Programs to Be Financed

MassBank could provide the debt financing for the following state infrastructure programs:

- State highways
- Bridges and tunnels
- Sewerage systems
- Water supply systems

As such, the state development agencies will continue to operate as they do now with regard to capital infrastructure projects. They will plan, select, design and construct projects as they are now charged to do.

The Legislature will continue to approve programs and projects in the same manner as they are currently approved. No Executive veto powers will exist over programs approved by the Legislature. The only alteration will be in the source and manner of obtaining funds.

Instead of projects being financed exclusively through general obligation bonds of the Commonwealth, the Legislature would authorize the Governor to direct MassBank to raise and transfer the funds to the state development agencies by the issuance of revenue bonds secured by the revenues of MassBank and not by the full faith and credit of the Commonwealth.

State Projects MassBank Will Not Finance

MassBank will not finance those state facilities that do not have a direct economic benefit. The Commonwealth will continue to finance out of general obligation bonds facilities built for its own use, such as state offices, educational facilities, prisons, etc. As such, there will continue to be a regular capital budgeting process, with annual submissions to the Legislature for approval and design and construction by the Division of Capital Planning and Operations within the Executive Office of Administration and Finance.

MassBank and the Federal Government

MassBank is purely an initiative by the citizens of Massachusetts. It will in no way be dependent on prior or subsequent federal action.

It is hoped that MassBank will stimulate similar initiatives in other states and that, together, the states will succeed at encouraging the federal government to assume a fair share of the infrastructure burden. Certainly, the federal government could do much to strengthen this MassBank initiative.

It should be emphasized, however, that MassBank will not be the depository or conduit for all or any federal infrastructure grants, unless federal statutes are changed. And MassBank will not require any change in the current federal grant in aid process for any agency or city or town.

MassBank and the Cities and Towns

As important as MassBank will be to the state, it will be equally important to the municipalities of the Commonwealth. Initially, it would provide funds for local highway infrastructure projects in 1985. And, in 1986, it would use a dedicated source of highway user taxes which now go out annually in small amounts to the cities and towns to secure a revenue bond issue which would make a much larger amount available immediately, permitting more and large projects to be started and preventing the costs of delay and inflation to eat away at local fiscal capacity.

MassBank would assist those communities of the state which have difficulty borrowing funds from any other source by purchasing the debt obligations of the city or town. In addition, the proposal would allow all communities to issue revenue bonds for local revenue producing infrastructure projects -- such as a local water or sewer system -- whether or not the city or town chose to work through MassBank. In order for the city or town and MassBank to secure lower borrowing costs, the local government could in either case pledge any local aid due that city or town as payment of any debt obligation.

MOODY'S MASSACHUSETTS MUNICIPAL BOND RATING CHANGES (Calendar Year)

Bonding Authority	<u>Prior to Proposition 2½</u>			<u>After Proposition 2½</u>								
	1980			1981			1982 to June 1983 (18 months)					
	Upgrade	Downgrade	Suspension	Upgrade	Downgrade	Suspension	Upgrade	Downgrade	Reinstate Same	Reinstate Down		
Cities	1			1			26	1	1	2	24	
Towns	2			2			11	1	3	7	4	
School/Sewer Districts							7			5		

In addition, MassBank would provide for local participation in a permanent Advisory Committee on local infrastructure needs. The advisory committee would regularly make recommendations to the Governor regarding such needs.

It should be emphasized that MassBank will not select local projects for financing. Local government officials will do that.

Revenues for MassBank

Everyone agrees that we must re-build and improve our bridges, roads, water and sewer systems. It is not so easy to come to agreement on how to pay for it.

We have worked long and hard with members of the business community, and we think that we have developed a fair and responsible way to provide the funds so critical to our economic future.

Our joint concern has been to sustain and foster our economic growth prospects through MassBank, while submitting a revenue proposal which will not place our economic health in jeopardy.

So that MassBank can begin immediately to provide financing assistance to state infrastructure projects, it is proposed that an infrastructure assessment be imposed on the income of business enterprises in the state. The amount paid by each type of business -- business corporations, insurance companies, commercial banks, thrift institutions, public utilities -- would be in proportion to the amount the business now pays of total business tax collections.

The amounts collected from these assessments would be dedicated by the Commonwealth to MassBank for use in providing financing assistance to state infrastructure projects, and the Commonwealth would covenant not to repeal or reduce the assessment as long as any bonds of MassBank were outstanding. The amounts collected would be transferred, as received, and without appropriation or further provision of law, to MassBank.

Initially, the assessment is expected to yield approximately \$96 million a year. Eventually, the yield is expected to reach a maximum of \$145 million.

THE INFRASTRUCTURE DEVELOPMENT ASSESSMENT (IDA)

The IDA rates (on taxable income, premiums and tangible property):

	IDA Rate
Business Corporations	
Net income	0.5%
Property (per \$1,000)	\$1.10
Savings Banks	
Gross Income	0.132%
Deposits	0.0065%
Commercial Banks	
Net Income	1.32%
Utilities	
Income	.68%
Insurance	
Premiums	.21%
Gross Investment Income	.11%

Summary

In addition to the new infrastructure assessment, several other adjustments in business taxes are proposed to both eliminate the negative impact on the total business community as well as to provide further stimulus to economic expansion. Massachusetts will adjust a three year old policy on applying the corporate excise tax on a worldwide basis. Instead, Massachusetts will conform to federal tax treatment of corporate subsidiary income, and assess the tax on subsidiaries within the United States. This so-called "water's edge" unitary will be retroactive for two years.

To compensate the General Fund for the tax loss associated with this pro-growth initiative, the Federal Accelerated Cost Recovery System will be revised, such that only 80% of the benefit can be taken. This retains much of the stimulus to ACRS, while reducing substantially the costs to Massachusetts of this federally-sponsored initiative.

Finally, we propose to strengthen the momentum behind our strong economic recovery by reducing for the second year in a row unemployment insurance taxes by .6%, saving business \$90 million in annual contributions to the Unemployment Trust Fund. This is possible because of the significantly lower unemployment rates here in Massachusetts relative to the nation and the near \$600 million surplus that now exists in the fund.

Additionally, we propose to extend the 3% investment tax credit now, rather than waiting until it runs out next year, so that investment plans can be forged now with the expectation of its continuance.

SUMMARY

	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>
<u>NEW MASSBANK REVENUE</u>	\$45.1M	\$95.8M	\$101.5M

**TAX ADJUSTMENTS AFFECTING
STATE BUDGET**

Adjustment from world-wide to "water's edge"			
Unitary	(\$35M)	(\$35M)	(\$35M)
80% of ACRS for state tax purposes	\$35M	\$40M	\$40M

**TAX REDUCTIONS TO
PROMOTE SUSTAINED GROWTH**

U.I. Tax .6% decline	\$90M	\$90M	\$90M
State Investment Tax Credit extension (2%)		\$14M	\$30M

**TAX REDUCTION ALREADY
ENACTED**

Sunset of U.I. Economic Development Assessment	\$16M	\$32M	\$34M
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